

SECTION OPERATIONS REPORT

PM **PHILIP
MORRIS**

**JULY
1987**

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PHILIP MORRIS, U.S.A.

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120 PARK AVENUE, NEW YORK, N.Y. 10017

TO: Distribution

DATE: August 12, 1987

FROM: D. Nelson

SUBJECT: SECTION OPERATIONS REPORTS

Beginning this month, we will circulate Section Operations Reports in a new format. All 29 reports have been bound together and separated by section and region. We have changed the timing of the report so that all sections will report at month's end.

The number of original copies has been increased making it possible to reduce the size of distribution lists. The major benefit of this new system is to give you the opportunity to get a national picture of the sales and marketing area you're most interested in, in a much more timely and actionable fashion.

Also, as in the past, help keep the information timely for those on your distribution and read through the reports as quickly as possible. We realize there's a lot of valuable information in this document, therefore, please make every effort to expedite it so as not to disadvantage those on your list who have not yet seen the report.

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REGION 1

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MARKETING CONDITIONS

Cambridge

The Cambridge introduction is proceeding well to date with overall distribution at about 75%.

Among our chains, 73% of the accounts have accepted, covering 75% of the stores. Some of the key accounts not accepting to date include:

Christy's Markets
Star Market
Purity Supreme
Hills Dept. Stores
Tedeshi Food Shops

I expect to see significant gains in distribution of Cambridge Lights during the full flavor introduction.

Philip Morris Sales

Sales for the first half of 1987 are up .9% over 1986. Brand performance is as follows:

Marlboro	+4.8
Parliament	-6.5
B & H	-10.1
V. S.	-6.9
Merit	-1.4
Players	-31.7
Cambridge	+19.7

The brands/packings showing significant growth in the Section include:

Marlboro Box	+4.4
Marlboro Lights 85	+10.5
Marlboro Lights 100's	+7.4
Merit Box	+11.9
Merit Ultra Lights 85's	+12.6
Merit Ultra Lights 100's	+13.0
Cambridge Family	+19.7

PM's Share of Market in Section 11 has reached another high, with a current 12-month average of 42.25%, which is up 1.77 share points over the previous 12-month average.

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MARKETING CONDITIONS (Continued)

Industry Sales

Through 5/87, industry sales in Section 11 are down -3.9% vs. the corresponding 12-month average one year ago. During this same time frame, PM's volume was up 1.68%.

As a result of continual brand proliferation, accounts are beginning to look more closely at individual brand/packing sales in order to eliminate packings to make room for new brand packings.

Tax/Regulatory Development

Senator G. Humphrey (R.-N.H.) and Representative J. Gregg (R.-N.H.) have come out publicly in opposition to increasing excise taxes. Representative C. Atkins (D.-Mass.) has indicated that he will support increased excise taxes.

The recent price increase has eroded support for some of our customers, for the Jacob Albright theme.

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COMPETITIVE ACTIVITY

American Tobacco Company

Beginning 7/13/87, American is introducing new Pall Mall Filters, Kings and 100's in the Northeast - (New England, plus Penn., N.J., Del., and New York). They are offering direct accounts 10% off invoice on all purchases from 7/13 through 7/31/87, plus 30-day terms. In addition, American has sent a flyer to retailers encouraging them to order the new product through normal channels, and when the American Rep. calls on the store, and the accounts are carrying 4 cartons, the retailer will receive \$4.00 cash.

American's payment schedule for Value Centers has been reported as follows:

American Fixtures \$3.00/row

Competitive Fixtures \$2.50/row

Coupon Activity

- . \$1.00 & \$2.00 off Lucky Strike Filter Kings & 100's.
- . \$1.00 & \$2.00 off Carlton

Brown & Williamson

Falcon Lights is being introduced at retail with a 40-unit display featuring 10¢ off per pack. Reports are that the product is moving well off these displays. They are also placing \$1.00 off coupons on cartons of Falcon Lights.

Coupon Activity

- . Kool 60 carton floor display (all packings) offering \$2.00 off per carton
- . Richland \$2.00 off/carton
- . Barclay - \$2.00 off/carton plus a mail-in offer for a 2 additional \$2.00 off coupons

Liggett & Myers

No significant activity to report

(Continued)

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COMPETITIVE ACTIVITY (Continued)

P. Lorillard**Coupon Activity**

- . \$2.00 - Newport (all packings)
- . \$1.00 - True (old packing only)
- . \$2.00 - Kent (all packings)
- . \$2.00 - Satin
- B1G1F - Newport Kings & 100's

R. J. Reynolds

Magna continues to be flooded into N.H. accounts with B1G1F promotions. Displays of 40 units and 100 units with back-up stock are being sold in. On NON B1G1F product, the packs are being stickered at 15¢ off per pack. All cartons are being couponed at \$1.00 off.

To date, the brand is moving very well via the B1G1F offers.

R.J.R. is sending consumers via direct mail, free pack and B1G1F coupons on Magna. One of our S/R's has received 2 mailings which include 11 coupons (5 free pack, 6 B1G1F).

R.J.R. has been applying \$1.00 and \$2.00 off stickers on major brand families in high volume area. Exact amount unknown, however, from observations, it appears to be substantial.

R.J.R. is also offering a free \$50 savings bond via mail with 8 proofs of purchase of Salem or Winston cartons. The extent of this offer (geographically) is unknown.

Presenting 180 carton floor display on all brands with a \$2.00 off coupon. Payment is \$45.00 to store and is scheduled for the last two weeks of July.

The RJR "Caravan" showed up at one of the area's largest Fairs in Brockton, Ma. The Trailer Truck with the writing "RJR The Pride of Tobacco" on its sides featured a museum-like presentation of RJR's history. One side of the trailer opens up into a stage and musical entertainment was provided. No sampling activity or promotional items were distributed.

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COMPETITIVE ACTIVITY (Continued)

R. J. Reynolds (Continued)

R.J.R. is testing their rack with the electronic security system in a Stop & Shop in Quincy, Ma. Prior to the system being activated, Stop & Shop will track shrink for a 4-week period, and then measure shrink with the security system operating.

R.J.R. has made some inroads with their new overhead merchandiser, and we have lost about 25 units in the last several weeks.

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TRADE CLASSES

Distributors/Wholesalers

The direct accounts that are involved with our Marlboro Summer Resort sell-in were pleased that we were able to secure product at the old price in order to meet the demand for product that was pre-booked by our sales people.

A few Mass. jobbers have been encountering problems with the state reimbursing tax monies on returned/damaged product within 120 days. This situation will be investigated by our key account managers, and we will inform N.Y.O. of the magnitude of the problem.

Supermarkets

Shaw's Supermarkets, E. Bridgewater, Ma. has agreed to purchase Iandoli's Supermarkets (16 stores) of Worcester, Ma. for \$12.75 million in cash. The sale is expected to be completed in October.

At the same time, Shaw's is being taken over by J. Sainsbury, a Great Britain food retailer who previously owned 28.5% of Shaws.

Supermarket General Corp. has agreed to sell 25 free standing drug stores to the Melville Corp. of Harrison, N.Y. The stores to be sold are in Mass. and N.H. and operate under the Heartland and Pharmacity names.

Star Market recently announced plans to open their first Superstore in Franklin, Mass. This store will have approximately 58,000 square feet and will replace a smaller 20,000 square foot store in Franklin.

Convenience/Convenience Gas

No significant developments this reporting period.

Drug Stores

Nothing to report this period.

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TRADE CLASSES (Continued)

Mass Merchandisers

Zayre Corp. continues to be aggressive with the cigarette category. We are currently exploring the possibility of placing Marlboro checklane displays in all Zayre locations with an average of 10 checklanes per store.

Zayre also plans to upgrade their cigarette department late this year. We will be presenting System 2000 fixtures for all locations plus improved pack merchandising fixtures.

Returned Goods Salvage Program Recap

<u>SECTION 11</u>	<u>Month/Year</u>	<u>July, 1987</u>
	<u># Cartons Handled</u>	<u># Cartons Salvaged</u>
Sales Reps/Area Managers	<u>838</u>	<u>8</u>
Returned Good Processors	<u>5,729</u>	<u>1,514</u>
TOTAL	<u>6,567</u>	<u>1,522</u>

Key Account Contacts

<u>Date</u>	<u>Account</u>	<u>Attendees</u>
6/3/87	Garber Bros.	J. Gillis

Discussed general business with Harold Garber (President) and how PM can assist Garber Bros. with general marketing information on various trading areas.

6/4/87	Stop & Shop	R. Webster
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Met with Bob Mardo and successfully sold in Cambridge Full Flavor and Marlboro Resort Store Sales on Cape Cod. During the call, we also discussed System 2000 and improved plan-o-grams designed to correct inventory imbalances reduce O.O.S. and maximize payments.

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Key Account Contacts (Continued)

<u>Date</u>	<u>Account</u>	<u>Attendees</u>
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7/18,19/87	Pine State Tobacco	
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Discussed general business with Paul Auger as well as social events at V.S. Tennis in Newport, R. I.

LaVerdiere Drug

Again discussed general business as well as overall marketing objectives of LaVerdiere's with Mike LaVerdiere (V.P.)

During the weekend, I also attended social function with Mike and his guest.

7/19/87	Alpert Bros.	West & Grace Alpert
	Lesco Bros.	Bob Lesco
	Marks Wholesale	Lloyd & Barbara Silverman
	Taunton Tobacco	Bill Antine

Entertained the above customers at the Virginia Slims brunch.

7/22/87	A. H. Notini & Sons	
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Discussed general business with Frank Dolan, Sales Manager for A. H. Notini. Frank indicated business was progressing very well and business was good with P.M.

MERCHANDISING PROGRAMS

Carton Merchandising

We recently implemented a new plan-o-gram with Hannaford Bros. which enabled us to gain 21 rows per store in 15 stores.

Stop & Shop continues to show interest in System 2000, and we expect to have a fixture showing within the next month.

Plan A penetration in accounts selling over 500 CPW is now 95.6%. Plan A penetration for all qualifying accounts is 97.8%.

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MERCHANDISING PROGRAMS (Continued)

Carton Merchandising (Continued)

The Marlboro Sports Gear A-1 program has been very well received by both chain and independent accounts.

Pack Merchandising

There have not been any significant developments on pack merchandising this period. A pack merchandising proposal for Zayre has been submitted to N.Y.O. and is under consideration.

We recently have 1,517 accounts with P.M. Pack Fixtures or 19.2% of our accounts.

Plan B/M penetration is up to 34.2% and Plan BV penetration is at 17.6%.

Section Merchandising/Productivity Results

	<u>12/86</u>	<u>6/87</u>	<u>Change</u>
Plan A rows	87,772	92,547	+4775
Plan A penetration	94.7	97.8	+3.1%
Accts. w/pack rack	1,310	1,517	+207
Accts. w/ctn. pack	252	350	+98
Plan A	1,311	1,350	+39
Plan A-1	904	902	-2
Plan B	1,975	1,875	-100
Plan M	608	840	+232
Plan R	38	50	+12
BG	632	917	+285
BV	1,118	1,397	+279
AG/AV	438	462	+24
Prime Position	1,215	1,403	+188
A.O.M.	1,436	1,795	+359
Accts. w/Perm. P.O.S./%	6,258/79.6%	6,341/80.1	+83/+5

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SECTION ACTIVITIES

Productivity Trends - June, 1987

Maxi Call Rate	11.6
Regular Call Rate	10.7
True Call Rate	8.8
Selling Time	91.1

Cycling# S/R's

Cycled	33
90-95%	4
85-89%	3
80-84%	4
75-79%	1
-75%	12

Area Managers

Three of our four AM's attended a work shop in Atlanta, Georgia, from July 7 to 10th. Generally, they all commented that the work shop was worthwhile.

AM's and SAM's continued efforts with follow-up presentations to gain acceptance of Cambridge Full Flavor in their "hold out" accounts.

Presentations were made to several accounts on Plan A, AV and AG in an effort to improve P.M.'s space.

In addition, all AM's/SAM's were involved in completing the ADA program on Cambridge Full Flavor. Inventory counts were taken on July 20th in virtually all direct accounts.

Division Managers

DM's have been involved with follow up training in regard to Cambridge Full Flavor intro. Emphasis has been placed on gaining distribution and building inventory and visibility levels. They have also stressed the importance of covering Plan B/M accounts to insure that Cambridge is properly displayed.

The Marlboro Resort Program is coming to a close. In the month of July, 8 Bar Nights and 24 store sales were successfully conducted on Cape Cod, Ma. and Old Orchard Beach, Me. This program continues to generate enthusiasm and increase visibility in our resort areas.

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SECTION ACTIVITIES (Continued)

Division Managers (Continued)

DM's have also been involved with the "Marlboro Heavy Up", "B&H Inner City Program" (through August) and the Hispanic Festivals which recently ended. (7/26).

In addition, our recent contract revisions on Plan A, AV, AM, etc., and our continuous effort to sell our fixtures has kept them very busy.

Special ProgramsMarlboro Summer Inventory Program

The Marlboro Summer inventory program is progressing very well in all designated areas. Specific accomplishments will be reported at the conclusion of the program.

Annual Golf Outing

All aspects of the Philip Morris/Golf Digest Golf Outing have been arranged. Invitations have been sent out and the agenda for the day has been established.

Hispanic Festivals

The Hispanic Festivals in Lawrence and Boston have concluded, and both programs were successful. Special events reports will be submitted as per guidelines.

Marlboro Summer Resort

All resort activities will conclude by 8/2/87.

P.O.S. Materials

Marlboro floor ashtrays and Marlboro washer buckets have been ordered for placement at 60 Richdale stores.

It will be quite helpful, in the marketing and promotion of Cambridge, if we were able to order and receive BV displays, prior to the removal of Cambridge, from the B/M displays during August. This would be an excellent time to sell and place BV displays and maintain visibility and availability of Cambridge.

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SALES SERVICES

The new computer materials that were unveiled in Va., recently have outstanding capabilities and applications. The MIS department worked very hard during the meeting in Richmond in an effort to design the programs to meet our needs. I am looking forward to utilizing this resource in managing our business.

SALES DEVELOPMENT

We recently experienced a serious problem with our Marlboro two pack lighter promotion. Stop & Shop had accepted the display for 41 stores, and shortly after implementation, removed all displays due to scanning problems. When the two pack unit was scanned, the scanner read only one UPC code and consequently charged the consumer for one pack instead of two. Needless to say, Stop & Shop headquarters was very unhappy with this situation.

In the future, I recommend that two scanner codes be printed on the unit in order to rectify the problem. It may be necessary to place the codes on manually in order to reflect the correct packing. This problem will only get worse as more and more stores scan; therefore, I suggest that we correct the problem as soon as possible.

MEDIA DEVELOPMENTS

Nothing significant to report

ASSOCIATIONS/CONVENTIONS

No activity to report

MISCELLANEOUS COMMENTS

During the past several months, field managers have experienced a substantial increase in administrative responsibilities. This extra administration hinders managers ability to be in the field selling and training their personnel. It would be very helpful if we could make every effort to reduce the administrative burden on our field managers.

If at all possible, we would like more advance notice of B1G1F product shipment schedules to direct accounts so that we can secure purchase orders and ensure delivery of product.

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I. Marketing Conditions

New PM Brands

Our management coverage for the Cambridge Full Flavor introduction was generally successful but yielded five notable "holdout" chains. Still refusing at this time: Brooks Drug (414 stores); CVS (609 stores); Ames Department Stores (316 stores); Almacs (37 supermarkets); and P & C (24 supermarkets).

Several smaller Convenience/Gas chains, who refuse to handle the generic price point with any packings, also continue to refuse Cambridge.

In nine instances, however, distribution on Cambridge Full Flavor and Lights packings was gained, despite great resistance to the category.

Our retail introduction was hampered by multiple programs (Marlboro lighter display, Marlboro Summer Resort inventory drive), unusually large number of late pre-book deliveries, and late coupon shipments (two weeks). DMs anticipate 70%+ distribution if the gratis period can be extended through August. If not, it will be an uphill battle to match our 60%+ Lights distribution.

In general, DMs report that our Full Flavor introduction helped us solidify our Cambridge Lights distribution by showing a strong commitment to the brand.

In both Vermont and Western Mass markets, all generics and price value entries are overshadowed by the strength and consistency of RJR's efforts on behalf of the Magna test (see Competitive Activity).

PM/Industry Sales

June unit sales were up 3.6% versus June '86, bringing our YTD '87 unit gain down to +4.5%.

Section 12 markets (CT; RI; VT) increased, with the exception of Western Mass (-7.8). Western Mass unit sales continue to be affected by the closing of TDC's Polep/Western Mass branch, which went out of business in Sept. '86. Several gas and gas/convenience chains, formerly serviced by Polep/Western Mass, have given their business to Section 13's McLane branch.

Price increase anticipatory buying was a factor in maintaining positive unit gains in both June '86 and '87 results.

Due to very generous RJR and Lorillard buy-in programs (price increase mail grams forwarded NYO), their inventories are very high at direct accounts (several weeks supply in many cases).

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II. MAJOR COMPETITIVE DEVELOPMENTS

American - B1G1F displays on behalf of Carlton 100's, Lucky Strike Filters, and Pall Mall Lights. Cartons also couponed at retail: Carlton 100's - \$1.00 off coupon; Pall Mall Lights - \$1.50 off, and Lucky Strike Filters - \$2.00 off.

Pall Mall King and 100's filters (in traditional red non-filter pack style) are being introduced in all Region 1 markets, plus Pennsylvania and Delaware. (All introductory circulars forwarded to NYO in late June). S/Rs are pre-booking for 20-40 carton displays, with \$2.00 off introductory coupon effort (details in circular).

B & W - S/R's actively working Falcon generic introduction in all markets, as reported last month. DMs unanimously report that Falcon is not being well-received by consumers, retailers, or wholesalers. Their introductory efforts are totally overshadowed by Magna (RJR) and Cambridge activity.

Richland, Kool, Viceroy, and Belair packings are being heavily couponed with \$2.00 off carton sticker coupons. It appears as if B & W may be testing the effect of \$2.00 in-store couponing versus the list price reduction effect in other selected markets (price reduction markets phoned to Steve Sabella, NYO, in June).

B & W Reps soliciting initial orders for an expansion of their Capri brand test/launch (circular forwarded to NYO with expanded market details). Initial shipments are due August 4th.

L & M - Sales Reps are pre-booking Quality Seal generics at 15¢ off per carton for a \$1.00 and \$1.50 coupon sticker drive in late July/August.

Activity on other brands is not noted at this time, including both "Total" and "Class A" (reported limited introductions last month).

Lorillard - Major activity centers around the True repackaging with two packs/free lighter package displays, \$1.00 off carton coupons, and P.O.S. activity.

Other S/R activity includes \$2.00 off carton purchase coupon stickering on virtually all their product lines.

Lorillard continues testing potential Newport line extensions. Via Cumberland Farms, SAM Bill Finlan was informed of Newport Stripes (Kings and 100's) being tested in the Albany, NY market, while Newport Stripes 100's Menthol and Newport Slims Lights (also still under test in Hartford, CT market), will be tested in Delaware (information forwarded to NYO).

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II. MAJOR COMPETITIVE DEVELOPMENTS (continued)

RJR - Massachusetts and Vermont DMs continue to report impressive (consistently heavy) activity on behalf of Magna, with seemingly unlimited BlGIFs, \$1.00 off coupons, primary counter displays, and P.O.S. (both quantities and types). Retailers report all other P/V entries are being seriously hurt, including RJR's own Doral. In test areas RJR is also working a BlGIF on Doral. They seem committed to total Price/Value domination in these markets, and they are doing an excellent job.

The addition of Doral Ultra Lights 100's continues to very low key (as reported last month).

Activities in other markets include: Winston Red two packs with free lighter deal; Winston box packings BlGIF; and Salem B3G3 pack promotions.

Virtually all RJR cartons at retail are stickered with \$2.00 off coupons. Doral is still at \$1.00 off. Product for coupon drive is loaded into retail with a seemingly unlimited 25¢ off per carton offer.

Century and Doral Lights packing changes are showing up at retail - causing no real awareness.

RJR adjustable overheads are being actively sold with a reported 24 hour delivery guarantee and a \$150.00 one time PM to RJR conversion payment (no formal contract or documentation to support payment). Only five retail accounts have converted to RJRs new unit: all are reportedly disappointed with the functional design (as reported last month) of RJR's new rack. One has already re-converted back to our fixture.

DMs report that several veteran RJR Reps throughout the section are being very vocal regarding their intention to take the RJR early retirement program offer. If they follow through, it could give us a big opportunity in those territories involved.

All Companies - Original price increase mailgrams and subsequent price adjustment mailgrams (B&W, Lorillard) were forwarded to NYO during June.

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III. TRADE CLASSES

Wholesalers

As anticipated, one of the primary concerns of this trade class was the price increase. Response ranges from resigned apathy, to anger. We received more than the usual complaints about the "sequential" nature of this price increase, causing more computer programming time. The lack of a Philip Morris forward buying opportunity tied with our price increase was a surprise to many, and is causing mixed reactions.

Several wholesalers took the opportunity to throw our "Jacob Albright" program back at us.

As a result of our upper-tier penetration of New England Grocers, Northboro, Mass (as reported last month), this important wholesale grocer has now accepted all Cambridge packings. This should really help our distribution efforts with many independent supermarket outlets.

Vendors

Price increase reaction was very negative, as expected.

Supermarkets

Finast (67 stores, 34 self serve Plan A) - SAM Bill Finlan is still in the process of negotiating additional space on the new RJR flex racks being placed in Finast stores during this period - specifics will be reported when contracts are finalized with VP Merchandising Marty Lev.

Newport weekend was a big hit with Marty...could provide additional opportunities.

A & P (85 stores/32 self serve Plan A) - SAM Mark Lovley is continuing presentations, as above with Finast.

Iandoli (17 stores, 14 Plan A, 13 Plan AV) - Has finally given approval to Cambridge - all packings.

Also, now implemented, is a one store test of our System 2000 4x5x4 carton rack and three 1x3x1 centralized pack merchandisers. The racks were placed on 7/21; initial reaction is excellent at store level.

Iandoli's is apparently being sold to Shaw's Supermarkets, E. Bridgewater, MA, who is in turn being purchased by a large British Supermarket firm - J. Sainsbury PLS. Specific details are not being revealed by either Iandoli or Shaw's personnel. Confirmed dates to iron out purchase specifics are mid-August for a scheduled October 1st take-over implementation.

Ralph Mannheimer, NYO Credit, has been and will continue to be informed as more details are revealed.

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Supermarkets (cont)

Geisslers (4 supermarkets - 3 Plan A) - AM Jay Maloney signed AV contracts for three stores, while also gaining initial distribution of all Cambridge Full Flavor and Light packings.

Greenfields (8 supermarkets) - AM Jay Maloney signed 72 PM rows on two stores recently converted to self service merchandising.

Convenience

Honey Farms (50 stores - 50 B-3) - SAM Bill Finlan and AM Nick Bahou secured initial Cambridge distribution for all packings of Cambridge, and gained a non self service BV contract for all stores beginning August 1st. Our June implementation of the new B-3 program was flawless, with this notoriously difficult chain.

Cumberland Farms (1193 stores - 1102 B-3) - Our new M-4 program, previously reported for July implementation, has been unavoidably delayed due to upper management changes. VP Marketing Bill Chase, previously reporting to President Frank Alger, is now reporting to VP Operations Harry Brenner (who views our category as primarily a security risk).

On a positive note, Steve Haringa, who was recently upgraded to Senior Buyer, has now been named Director of Procurement, replacing retiring Bill Page.

Mr. Mikes (11 stores - B-4) - AM Nick Bahou has gained initial distribution of all Cambridge packings -BV proposal still pending.

Convenience/Gas

Xtra Mart (67 stores - Plan M-4; 32 Plan AV) - Attended their charity golf outing. Excellent rapport with this growing chain established by SAM Finlan.

Charter Marketing (66 stores - 34 M4, 2 Plan A, 66 BVs) - Our exterior signage program is now complete, with all Marlboro counter balances placed. We re-gained some credibility after our delay with the Charter 3-pack purchase banner program. The chain was impressed...thanks to Jim Keighley's (Sect 11) people, all stores were supplied as scheduled.

Aldin Associates (58 stores - 38 convenience) - All 38 convenience outlets have now been converted to our OHPM unit. SAM Bill Finlan is solidifying relationships with Director of Marketing Jeff Leedy and Operations Manager Ron Tateosian, and expects to present our Plan B series shortly.

Several smaller gas station chains continue their resistance to the entire generic and/or P/V category. Isolated tests have been arranged by our AMs to try Cambridge in select high volume stores, if the managers agree to try and maintain accurate inventory counts (the primary objection to new price tiers).

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Mass Merchandisers

Ames (322 stores - 322 Plan A) - Buyer Ellen Courtois has received tremendous pressure to solve a "22% shrink rate" that is primarily linked to cigarettes in their annual report. At this time she is rejecting all new products and considering a further cut back in their rack size to a new customized 3x3x3 4-shelf RJR rack. Her plan would drop us to a 59 row contract and eliminate American and L & M products.

SAM Bill Finlan will work with Ellen to try creating other alternatives.

Caldor's (108 stores - 108 Plan A) - No new activity at this time.

Anticipating future problems due to parent chain (May Co.) stressing inventory reduction. SAM Lovley attempting to keep on top of situation.

Drug

Brooks Drug (414 stores - No Plans) - Former President Bill Sudhaus has been moved to parent company, MacAndrew & Forbes. Theo Folz (formerly President of Consolidated Cigar) taking over as new CEO of Brooks. Folz's tobacco background and knowledge of category profitability could help us in future.

Liquor/Grocery/Other

Nothing new to report.

RETURNED GOODS SALVAGE PROGRAM RECAP

Section <u>12</u>	Month/Year <u>June 1987</u>	
	<u># Cartons Handled</u>	<u># Cartons Salvaged</u>
Sales Reps/Area Managers	<u>317</u>	<u>60</u>
Returned Goods Processors	<u>7026</u>	<u>1170</u>
Total	<u>7343</u>	<u>1230</u>

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IV. SSM KEY ACCOUNT CONTACTS

Cumberland Farms
Xtra Mart
Charter Marketing
First National Supermarkets
A & P N.E. Region
Brooks Drug
New Haven Tobacco
J. Polep Distribution
Manchester Tobacco
Hill Oil/Food Bag
S & S Tobacco
S & S Vending

See Trade Classes for
specifics regarding
developments with Key
Account contacts

V. MERCHANDISING PROGRAMS

A. Carton Merchandising Programs

Our new, highly flexible, Plan A, AM, and AV programs were very well-received by all Managers and Sales Reps. The re-signing deadlines were well-conceived to allow us ample time to target stores, set objectives, and make the multiple presentations necessary to make major dents in row gap and out-of-stock accounts.

AV/AG - The Marlboro Sports Bag A-1 is being very well received at retail level - specific placement results will be reported next month.

B. Pack/Counter Merchandising Programs

Due to the new ICR causing temporarily increased edit problems, it is difficult to precisely gauge our increases with Plan B, BV, BG, and add-on modules. All DMs report gains with all programs (SAM/AM accomplishments listed under Trade Classes).

Our Marlboro Lighter promotion received an excellent response among retailers and their consumers. DMs report a 3-4 day average "sell out" time. Some problems were encountered with improper blister cards (lighter upside down and missing adhesive strips) and displays (missing staples causing displays to collapse). The new lighter design got favorable comments due to the larger fuel reservoir.

B & H Inner-City Program - The B & H Inner-City 2 for 1 program was worked by our Sales Reps in Springfield, Ma; Hartford, New Haven, and Bridgeport, CT; and Providence, RI. Sales Reps involved report positive program results, adding that B & H should continue its promotional efforts in ethnic communities.

C. Vending

Nothing new to report.

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D. Pack Fixtures

Several additional OHPMs and second generation fixtures were placed by RMs during this reporting period. Exact net gain figures will not be available until the output of our new ICR and FSR "normalizes", as our Sales Reps get used to using the new documents. Specific figures will be available for our next report.

VI. SECTION ACTIVITIES

During the June/July period, a great deal of management time was consumed with training activities: SAM I Seminar, Myrtle Beach, NC; MPA II Seminar, Richmond, VA; and a combined Region I, II, III Area Manager Seminar. With four new Area Managers and two new Division Managers, even handling normal activities presented a challenge.

Other activities during period included: Marlboro lighter display placements; Marlboro A-1 presentations and placements; Cambridge pre-booking; follow-up couponing; Cambridge retail coverage; Marlboro Resort area inventory program; our new Plan A; the Marlboro Summer Sampling program; and B & H Inner-City Marketing program; Virginia Slims of Newport; Rhode Island 15th National Van Truck-In; Golf Digest ITT Golf Tournament invitations; POS facility consolidations; covering five S/R vacancies; Jacob Albright meetings program follow-up; new S/R reporting documents (ICR, FSR, Call Summary), and vacations.

There wasn't much time available for any other special section activities.

Only 60% of our territories cycled at 90%+. Our call rate was also off due to the above activities/problems encountered during the month.

Bottom line - this reporting period saw several adjustments in manpower causing an extreme demand for training time. All S/R vacancies should be filled by mid-August. Our new SAMs should be smoothly adjusted to and at least partially entrenched in their Key Accounts. Our six managers in new positions should be somewhat "up to speed". Our Sales Reps should be used to their new reporting documents. Our manpower will be more prepared for an even more successful second half of '87, but it's becoming more and more difficult for everyone to be able to successfully implement everything required of us. Additional manpower (Full and P/T) will be necessary.

VII. SALES SERVICES

Nothing specific to report at this time.

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VIII. SALES SUPPORT

The new Row Gap analysis is proving to be a great tool for helping our people establish good, realistic Plan A objectives.

The Cambridge travel alarm trade gift by Timex was extremely well-received by all customers. This type of quality was an important message about our commitment to growing Cambridge.

IX. MEDIA

Nothing new to report.

X. MEETINGS/ASSOCIATIONS/CONVENTIONS

SAM I Seminar, Myrtle Beach, NC - 6/8 through 6/12. Attended seminar with MPA Dave Simoneau and SAMs Bill Finlan and Mark Lovley.

Attended Region management meeting on 6/19 with MPA Dave Simoneau and SSSs Lodi and Pelchat. Materials covered included new Plan A, System 2000, warehouse consolidations, retail merchandiser re-organization, value product couponing, etc.

Conducted Plan A management meeting with MPA Dave Simoneau on 6/24, at the Harley Hotel, Enfield, CT.

Attended MPA II Seminar with MPA Dave Simoneau during the week of 7/13, in Richmond, VA.

Section management conducted customer activities at the 1987 Virginia Slims of Newport. This year's event was well attended by Section 12 invitees; several key decision-makers attended, solidifying rapport with SAMs.

Four of our new AMs attended a combined Region I, II, III seminar for new AM orientation during the week 7/6 through 7/10.

SSS', MPA and I attended PPP/Plan A meetings on 6/26 and 6/27.

Attended charity dinner with SAM Finlan in New York on 6/24, honoring Bruce Weitz, President Finast. Also in attendance: Larry Zinski, Tom Cawley, Steve Sabella, and other NYO personnel.

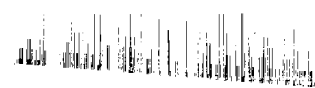
Attended Xtra Mart charity golf outing on 7/10, with SAM Finlan and SSS'.

Management meeting held on 7/21 regarding Virginia Slims Ultra Lights and B & H Lights Deluxe intros. Larry Glennie in attendance.

Will attend Cumberland Farms' Head Buyer Bill Page's retirement dinner on 7/27 with SAM Finlan.

Held luncheon for departing DMs (promoted to NYO) Jim Day and Bob Kruk - 7/1.

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Section 13

7/87

OPERATIONS REPORTI. MARKETING CONDITIONS

Cambridge - At the direct level, the Section has Rite Aid, Mark Stevens, N.F.S., Olean Wholesale, Akel, Victory and Golub pending acceptance of Cambridge Full Flavor. Although the vast majority of direct accounts have accepted Full Flavor, distribution cannot be made to the following chains until the previously stated Direct Accounts make a decision. The chains are Rite Aid, C.V.S., Tops, Wilson Farms, B-Quick, Giant, Victory, Price Chopper and Price Chopper Gas. With the job designation change of R.G.P., R.M.A. and Incentive Merchandiser to Permanent Part Timers, additional progress has been made in the Section at couponing at direct. Several Key accounts are in the process of being assimilated like McLane N/E and Fay's Drugs.

Philip Morris - The Section continues to lead the Region in growth and as of June is up 6.8% in sales. McLane N/E shows excellent gains by adding new chains, Attea continues to achieve with Indian business and Fay's going direct has likewise assisted in the growth. The new brand introductions of Virginia Slims Ultra and Benson & Hedges Box Lights should further assist the Section in achieving positive growth.

Industry - The Public Health Council's strict anti-smoking rules were defeated for a second time in court this week leaving the Council only one appeal process left in New York State. Anticipated buy-in during this period boosted inventories as direct accounts prepared for the "semi-annual price increase". Although support in the Section for the spirit of Jacob Albright was excellent, the price increase did not appear timely in the view of the trade, since the Industry is in the process of opposing the Federal Excise Tax increase currently.

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Section 13

7/87

II. COMPETITIVE ACTIVITY

American - They continue to coupon with \$2.00 off in Lucky Lights and Carlton. B2G1F's are being placed for Lucky Lights that include a \$1.00 off coupon. The Albany Test of Pall Mall Filter Red Kings and 100's is being expanded. Direct accounts are being offered 10% off on allocation. All product will have \$2.00 coupons shipped from the factory.

Brown & Williamson - Reps. are placing \$2.00 off coupons on Kool, Barclay and Richland. They are placing \$1.00 coupons on Falcon. B1G1F promotions are available on Richland and Kool.

Liggett & Myers - Reps are placing 20 carton floor bins offering free picnic ware (Knife, fork, and spoon) with a carton purchase of L&M, Lark or Chesterfield. Additionally, reps are placing B2G free lighter in with Eve and B1GF displays on behalf of L&M.

Lorillard - Albany area has Newport Stripes and will offer a free bracelet to consumers with a carton purchase. Two dollar off coupons are being placed on Kent and Newport families by reps. Displays offer free batteries with the purchase of two packs of Kent.

R. J. Reynolds - Reps are placing \$2.00 off coupons on Winston/Salem and Century. B1G1F are being placed in Albany for Magna and B1G1F for Salem elsewhere. R.J.R. has a \$50 savings bond offer for 8 carton purchase of Winston/Salem.

III. TRADE CLASSES

Wholesale Distributors - J. Corrigan Wholesale Inc. has submitted an application for direct via a change of ownership by purchasing Jones & McIntosh of Syracuse. Day Wholesale of Tupper Lake has submitted an application for direct and is hopeful of gaining business created by the void of Patrick Tobacco closing last year. The Herkimer group continues to assist with Direct Ship of incentive displays and all Carl's Drugs and 51 Mobil's were handled in this method for the Marlboro Lighter Promotion.

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Section 13

7/87

Wholesale Grocers - For the first time, Scheidelman direct shipped (Marlboro Lighter) incentive displays to 40 Byrne Dairy Stores. Scheidelman and McLane N/E have agreed to coupon Cambridge and we are in the process of implementing the program.

Supermarkets - P&C has agreed to a four store test of the 2000's Series Rack with the feature of lock up security. Tom Parker participated in the presentation and explained the option would be available by the end of the month. Wegman's is in the process of adding a new division of gas/convenience stores and plans to have 18 in the future. Their first store has been built and is located in a Wegman's Supermarket parking lot in the front. A P.M. carton fixture was placed in the new store.

Convenience/Gas - P.M. has been asked to provide a speaker for the N.Y.A.C.S. Fall Conference by McLane N/E President James Curley. Mesmer Dairy (20 stores) accepted plan BV this period. The Section continues to experiment with direct ship of incentive displays and during this period Byrne Dairy (40), Mobil Oil (51) and Stewart's (155) were handled in this time saving manner. Sugar Creek (61 stores) signed new contracts for Plans AM, AV, BV and M4 with two add-on modules. The materials have been ordered for placement next month. Additionally, Petr-All (7 stores) has signed to AM and both Red Barrell and Wilson Farms (71 stores) will have Marlboro Shopping Baskets placed in the stores in the near future.

Drug - Carl's participated in direct ship of incentive display (Marlboro Lighter) and will have Marlboro Shopping Baskets sent to their stores via the Herkimer group. Kinney Drug is in the process of converting C/I to R.J.R. Flex units and the Plan A has been signed (53 - 70 rows). Fay's continues to survey its stores via P.M. relative to present merchandising of cartons and is considering going back to self-service. Both Fay's and Kinney (Whalen) are beginning to coupon Cambridge at their Direct facilities.

Mass Merchandiser - Zayre Corporation is in the process of moving its finance department to Syracuse and has rented a facility to employ 300 personnel. Zayre is having employment difficulty in the Framingham MA 128 Hi Tech belt and has moved West where the unemployment rate and cost of labor is better for them. The headquarters will still remain in Framingham.

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Indian Reservation Calls - R.J.R. held a "Merchandising Show" at the Sheraton in N. Syracuse after a Tribal Council Meeting this period to offset the merchandising gains of P.M., since this unique class of Trade accounts for 2.9% of Section business.

RETURNED GOODS SALVAGE PROGRAM

<u>REPORTS FROM:</u>	<u>CTNS. SALVAGED</u>	<u>CTNS. RETURNED</u>	<u>TOTAL</u>
AM's ()			
RGP'S (3)	1711	6419	8130
SR'S ()			
TOTALS	1711	6419	8130
% RATE	21.05	78.95	100%

IV. KEY ACCOUNT CONTACTS

- 06/16 - Lobell's - Called on manager Phil DeCandia to discuss Mobil set up of Marlboro displays that were direct shipped and future promotions like upcoming Marlboro A-1.
- 07/09 - P&C - I met with Tom Parker, Dick Peschke and A.M. Fountain to discuss lock up security for 2000 Series. Dick Peschke agreed to a four store test with the added feature.
- with the added feature.
- 07/22 - Gordon Tobacco - I discussed by phone and agreed to have future management sell-in samples sent to Gordon Tobacco with Arnold Gordon.
- 07/23 - McLane N/E - I received a telephone call from President James Curley requesting a Speaker for N.Y.A.C.S. for their Fall Conference. Several calls were made to gain further details about the type of speech. P.M. has agreed to send a speaker to the N.Y.A.C.S. Fall Conference.

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V. CARTON MERCHANDISING

Carton Merchandising - The Section gained 1,246 rows and 25 Plan A's in this reporting period. All personnel have copies of their row gap analysis and are in the process of gaining both additional rows and re-signing their Plan A contracts. A 2000 Series rack has been placed in a Big M and P&C has agreed to a four store test.

Free Standing Fixture - The major accomplishments were signing Sugar Creek (71 stores) and Petr-All (7 stores) to Plan AM this month.

Marlboro Sports Gear A-1 August - The Section anticipates 100% utilization of its 706 A-1's during August. Stewarts (155 stores) has signed an A-1 contract and wishes to participate in this promotion for the first time. Additionally, Mobil (21 corporate) has agreed to have these displays and product with incentives force shipped via the Herkimer group. This will be the first time the Section has tested a direct ship of an A-1.

Pack Merchandising

Plan B/M/BG/BV - Sugarcreek (61 stores) contracted this month to Plan BV and M4 with two add-on modules.

Marlboro 2-Pack Lighter Promotion - Thirty seven chains in total participated in this excellent promotion which, without a doubt, is the best in the industry. Wilson Farms (71 stores) participated in its first P.M. promotion in many years. The Section direct shipped to Carl's, Stewart's, Mobil Oil and Byrne Dairy to save both time and money. Serious consideration should be given to this technique nationally, since to make it successful, an allocation should be given above the standard Kits.

Cambridge 2 for 1 - All allocations of B1G1F product (2 cases each 6M of 85's and 100's) have reportedly been placed, however, movement is sporadic and not being sold as fast as anticipated.

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Special Merchandising Programs

Cambridge Pre-Book Objective/Results - The Section objective was to pre-book 28,347 cartons and the results indicate 30,845 were pre-booked. Of the total 19,095 cartons were sold to independents and 11,750 were booked in chain accounts. Although pre-booking assisted in gaining distribution, it is a method with pitfalls since it disrupts down-the-street coverage, wholesalers do not always ship in a timely fashion and independents prefer gratis on the spot.

VI. SECTION ACTIVITIES

The Section cycled 42 of 50 assignments in June and all eight missed were due to vacancies. Five were vacancies and the other three were in a division with two vacancies. Call rate remained consistent at 11.3. Recruitment has proceeded and four vacancies have been filled and the final hire is currently in the Equifax process. Initial achievements have been good for Cambridge Full Flavor since 30,845 cartons were pre-booked and all B1G1F product has been sold in. Follow up continues in the pending direct accounts by our A.M.'s and S.A.M.'s, as well as initial presentations on behalf of Virginia Slims Ultra and B&H Lights Box. All personnel are endeavoring to decrease their row gap and initial inroads have been made with the 2000 Series rack (Big M and P&C). During the month, the Section promoted two personnel (Splendora Gleason to A.M. and Nancy Davis to S.A.M.) leaving the A.D.M. position vacant. A proposal is pending to create a D.M. of R.M.'s which would result in the discontinuance of the A.D.M. position. The Section has four new hires, four new A.M.'s, two new S.A.M.'s and one new D.M. All personnel are adjusting well, however, the simple fact is that many people in new positions has created a transition period that has impeded normal progress.

VII. SALES SERVICES

Systems - The Section has placed its Command Center and although the plotter and laser printer are not yet fully operational, we should have the situation corrected in a few weeks.

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7/87

Fleet - I have followed up to the Potential Inferior Defects - 1987 Vehicles letter from Crown Divisions and have six of 13 vehicles reporting defects. Per instructions from Fleet, I am awaiting instructions from them, since it appears all 13 vehicles should be properly re-inforced.

Materials Distribution - Nothing significant to report.

Office Administration - With the addition of the Command Center, the Section plans to study the feasibility of increasing its space in September when adjacent space will become available. Currently, we had to opt to give up the conference room, since it was the only available space for the Command Center.

VIII. SALES DEVELOPMENT

The video for the Virginia Slims Ultra introduction was very professional and the management team felt that it was the best to-date. The idea of showing the Fourth Philip Morris Newsletter at the Management Meeting was most appreciated by the management team since they were unaware that this media of communication had been used previously. The overheads were of fine quality because of the fact that they had color and were not just black and white. Obviously, this adds to a meeting and this improved the quality of the total presentation for both the "Virginia Slims Ultra and B&H Lights Box" introductions.

IX. MEDIA

N/A this month.

X. ASSOCIATIONS & CONVENTIONS

06/08 - 12/87 - S.A.M. Seminar - Myrtle Beach, South Carolina on Consultative Selling.

06/19/87 - Region Plan A Meeting.

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- 06/23/87 - Section Plan A Management Meeting.
- 06/26/87 - S.S.S. East Operation Plan A Meeting.
- 06/29/87 - S.S.S. West Operation Plan A Meeting.
- 07/13-16/87 - MPA II Seminar - Richmond, Virginia.
- 07/21/87 - Section Management Meeting
Dual Introduction of New Brands.

XI. MISCELLANEOUS COMMENTS

The Section has had some success in testing direct shipment of incentive displays to retail. Direct accounts are willing to participate to show their service orientation to their retail accounts. To further improve this method, the option of ordering separately for chains should be given close consideration rather than reps. ordering Kit size. Stewart's is currently being handled in this manner, however, this could be enhanced further for B1G1F promotions. This concept could be expanded to include independents on direct shipment of incentive displays. I believe this could be an excellent method to further improve the productivity of the sales force and will continue to strive for further implementation in the Section.

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2043945584

I. MARKETING CONDITIONSCambridge Full Flavor/Players Lights

Wholesale sell-in for Cambridge Full flavor went extremely well especially with our lucrative sell-in offer. Distribution was secured in 100% of these accounts.

Pre-booking at the retail level has received mixed reviews. High volume accounts with price value consumer have been little trouble in gaining distribution. However, our Inner-City markets, where the price value category is under developed, the response to our pre-booking efforts has been, at best, fair. I am, however, optimistic that once the product is in, hand distribution will be accomplished.

Response at the wholesale level to our pre-booking efforts has been, for the most part, good. However, several distributors have been reluctant to ship product on pre-books. Several have expressed concern with the additional time and effort needed to do separate invoicing as well as the fact that retail accounts may not accept product when shipped. We are presently working on these wholesale accounts in an attempt to resolve these problems.

We have received authorization to ship 20,000 cartons of buy one, get one free of Cambridge to the Department of Corrections. Shipments to take place the first week of August.

Marlboro Incentive Program is moving along nicely with approximately 45,000 cartons sold the month of June. The 10 cents off per carton has received good response in high volume outlets. However, lower volume accounts have been some what reluctant, as they feel their R.O.I.I. does not justify the investment. Further results to follow on subsequent reports.

P.M./Industry

Year to date sales figures show the section to be down 7% through June, while industry sales are down 13%. I am optimistic that with the resort areas now in full swing and the introduction of V.S. Ultra Lights Box and B&H Light Box (both of which compliment our section demographics), we will be turning our unit sales to the positive side.

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II. COMPETITIVE ACTIVITYAMERICAN

Permanent Displays - This month they are featuring Lucky Filter Kings and 100's, followed by the Carlton Family.

Temporary Displays - Offering Lucky Filter Lights as a buy two packs, get one pack free. One pack gratis is given to the retailer as display payment.

They are also offering an 8 pack display of Pall mall 25's, one pack gratis for display.

Couponing - Cartons of Lucky Strike Filter continue to come into the wholesaler with \$2.00 off coupons already attached.

New Brand - Next month they will introduce Pall mall Filter Kings and 100's with \$2.00 off coupons already attached.

Trends/Results - Coupons of their brands continue to be their major emphasis. Basically, this is the only way for most of the brands to sell.

BROWN & WILLIAMSON

Permanent Displays - Featured brands are Kool, Barclay and Richland Families.

Temporary Displays - They continue to promote Falcon in a 20 pack display offering 10 cents off a pack - \$2.00 display allowance.

Kool Box 25 cents off a pack - 3 carton display with \$1.50 payment to the retailer. Reps reimburse retailer for 25 cents off a pack.

Permanent P.O.S. - This month offering a new Kool Clock.

Temporary P.O.S. - Posters for Falcon, Richland and Kool.

Couponing - Sales Reps placing \$2.00 off stickers on all Kool cartons (any style). They pay retailer up front for the \$2.00.

Reps also handing out coupons to consumers (store sales) good for any of their brands. Coupons are buy one get one free.

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(Competitive Activity Cont'd)

Trends/Results - Falcon continues to sell, basically because at the time it is the cheapest brand available (10 cents less per pack).

LIGGETT & MYERS

Temporary Displays - Featuring Eve 120's Regular and Menthol 3 carton display with \$1.50 payment allowance. Packs have 25 cents off stickers - money paid up-front by Sales Rep.

Temporary P.O.S. - On behalf of Eve and Total. Total posters have space for Sales Rep to write in price/pack and per carton.

Couponing - Featuring \$2.00 off on a carton of L&M and \$1.50 off on Total.

Other - Liggett & Myers has introduced a new plastic counter display to hold "Total." It's a 4 carton display with a \$7.50/month display allowance (self-service).

LORILLARD

Permanent Display - Featuring new package of True followed by Newport, then Kent Family.

Temporary Display - One pack of Newport 25's - get a Lighter free - Regular Newport (20) buy two packs, get a free Lighter - 2 carton display with a \$1.50 payment.

Sampling - 4 packs of Newport.

Trends/Results - At the present time, Lorillard Reps seem to be just going throughout the motion. No real strong emphasis on any type of brand.

R.J. REYNOLDS

Permanent Displays - This month they are featuring Salem, Winston and Camel Lights.

Temporary Displays - Winston Box Regular and Lights - Buy one, get one free - three carton display, \$1.50 and \$3.00 display allowance. Also offering buy 2 of Winston Box, get a free Can Cooler Holder - 4 carton display 50 cents off a carton.

Couponing - Pre-Booking in cartons of Century 25's. They are placing \$2.00 off coupons on cartons.

(Competitive Activity Cont'd)

They also continue to mail coupons to consumers for all their brands.

Trends/Results - Seeing more and more consumers using RJR coupons. They continue to do heavy mailing

Reps continue to do heavy pre-booking of promotions as opposed to selling out of van or car.

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III. TRADE CLASSESWholesalers

While Distribution on Cambridge Flavor has been excellent, full allocations were not taken by the majority of our wholesale accounts due to a lack of repeat business.

We have placed a S/R back at All County Distributors. It has been noted that inventory levels are extremely low due to C.O.D. purchasing.

Bonanza, Metro Spanish and Koger have taken the leadership role in the Bronx Market. Sales growth has been extremely positive with 8.7, 18.89 and 25.5% increases respectively. Bonanza is aggressively seeking the sub-jobber business while Metro Spanish Markets continue to grow in number and volume (presently 24 stores).

At the present time, we are inundated with sub-jobbers in our Inner City Markets. I believe there is a need to develop a program for those accounts to insure adequate inventory levels.

Supermarkets - D'Agostinos - The majority of D'Agostino's Managers have not been pleased with our carton fixture test program. We are presently working with store personnel on ordering procedures to insure proper depth of inventory.

Pathmark - Store Managers have reported increased sales due to fewer OOS since the placement of our Series 2000 unit. We have received several complaints regarding pilferage due to security shields being broken. We are in the process of correcting this situation. However, the new brackets designed for the unit are sorely needed.

Convenience - 7-11 increased placements of RJR overheads are being placed in this account. It is becoming increasingly frustrating as we have received several inquiries regarding our fixtures.

Gas - Northville - We have completed placements in several of their locations. Surplus CMS II units to be used in a non-self service manner. We have also received a commitment from headquarters that as they convert their locations to C stores, our fixturing will be used.

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Mass Merchandisers

Nothing new to report.

Drug

Nothing new to report

RETURNED GOODS SALVAGE PROGRAM

	<u>#Cartons Handled</u>	<u>#Cartons Salvaged</u>
Sales Reps/Area Managers	-----	-----
Returned Goods Processors	5,362	344
TOTAL	5,362	344

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IV. KEY ACCOUNT CONTACTS

Metropolitan Tobacco - Met with this account several times during this period to review the following topics:

1. Cambridge Full Flavor introduction with V.P. Paul Messina.
2. Discussed with Sales Manager, Ron Koppel possible participation in his sales meetings with all branches.
3. Finalized Cambridge Full Flavor introduction with the Department of Corrections with Branch Manager, Paul Gallo.

We have provided Ron with 2 tapes dealing with Inventory Management for his review. A decision for their meeting in August will be forthcoming.

Department of Corrections - Met with Commissary Officer Ed Lepkowski to institute a special Marlboro promotion (one free deck of cards with 2 pack purchase) and a 2 for 1 promotion on Cambridge. Our Marlboro Program was implemented on 7/22/87 and our Cambridge Program is to start 8/1/87.

Valley Stream Distributors - Met with Owner, David Schneidman twice during this period to review our Cambridge Introduction, our pre-booking efforts and EPP. Mr. Schniedman is anxiously awaiting implementation of our EPP Program (presently he is participating in RJR's EFT Program).

Dollar Bills - Met with Rick Medwar who gave me the photo-type for our Marlboro Bag test with this account. Marcel was very pleased with the bag and our overall cooperation. We are presently waiting for construction of his new department prior to implementation. Presently, we have a B-2 and B/V display and are conduction store sales on a weekly basis.

Sanders Tobacco - Met with owner of these Globe Tobacco accounts (Lenny Sanders and Lenny Schwartz) to discuss some problems with pre-booking not being shipped to retail. In both instances, these problems were worked out and I have received a commitment from both that this situation will not occur in the future.

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Golden Tobacco - Met with Owner, Lou Helfstein and Sales Manager, Ira Gafarian to discuss the following topics:

1. Pre-booking of Marlboro for our special Incentive Program.
2. On-carton couponing at the wholesale level.
3. Direct shipping of 2 for 1 product to their retail stores (Empire Smoke).

In all of the above, we were able to reach an agreement conducive to both of us.

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V. MERCHANDISING PROGRAMSPlan A's

The revised Plan A meeting was conducted in June reviewing all aspects of the new contract. The elimination of the ceiling on competitive fixtures, standardize contract and the new Plan AM should prove to be very beneficial in increasing overall rows in the section. Currently the total number of independent Plan A's is 463, up 13 new plans since May. Averaged rows is now 87.9. Percentage of potential Plan A's signed in the 300 + CPW is 91.3% of stores.

Carton Fixtures

Carton Fixture placements continue to increase in the section. the June cycle shows 2.17 fixtures, an increase of 7 since April. Presentations continue to be make to independent accounts regarding our Series 2000 fixtures.

B&M Series Displays

The section's overall B/M Series Display penetration decreased during the June cycle. Currently the section has 2,087 total displays compared to 2,106 in May (down 19 displays). The decrease was minimal reflecting our sales force efforts to maximize our payouts by terminating habitual non-compliance accounts. In spite of our overall penetration decrease, we continue to experience excellent growth with our M-4 conversions. Since the April cycle, 58 additional displays have been converted. Additionally, we continue to show excellent progress with improving prime positions and add-on modules.

AV/AG

Significant progress continues to be made with finding a permanent home for our value brands via the AG/AV units. Since April, 7 new fixtures have been placed, bringing the total to 174 in the section.

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BG/BV1987 ObjectiveYTD Achievements

B-G - 1,100

B-G - 887

B-V - 1,000

B-V - 734

Since April, a total of 150 new contracts have been signed. The introduction of Cambridge Full Flavor has been instrumental in assisting Sales Reps with signing new contracts.

Overheads

Since May, the section has had 48 new placements of overheads, bringing the total to 1,408. The new low profile overheads have been very beneficial in increasing section totals.

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VI. SECTION ACTIVITIESCycling

The number of territories cycled at 96% or better for the June cycle was the lowest since January of this year. Of the assigned 73 territories, only 48 cycled at 96% or better. As a matter of fact, each perspective percent categories were down from the previous months. In depth analysis of this area reveals the following factors affected cycling:

1. The section had 6 vacant assignments (STD's and vacancies). Due to the heavy workload, Sales Reps are finding it increasingly difficult to allocate time to covering the vacant assignments when the majority of their time is devoted to activities in their perspective territories.

2. Traditionally, June is a very vacation month for our sales force. Combine this with the increased absenteeism (4.9) and down time due to traffic, auto repairs and break-ins (6.3% other time), these factors definitely have an adverse effect on our ability to properly cycle available territories.

3. The Cambridge Full-Flavor retail introduction, Sales Reps concentrating on improving distribution, was yet another factor that affected cycling.

The above areas are not excuses, but rather explanations for the conditions that exist in our unique market.

Call Rate

The True and maxi call rate for the June cycle were both 11.6 C.P.D., an increase over the previous cycle. Analysis for this area shows that Sales Reps continue to over and under in contacting calls, not following the assigned point value.

Management Activities

Deployment of Division 06 and 08 has been completed. The deployment was necessary due to a large imbalance in territory workload. This should have a definite impact on overall productivity in these divisions.

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We have completed hiring for our Marlboro samplers, however, B&H Inner-City Program is not completed, as we are having difficulty finding temporary help. If this situation persists, it may be necessary to use a temporary agency.

Area Managers

Major emphasis continues to be on behalf of our Cambridge Full Flavor Introduction at the chain level. Other areas of concentration are: Marlboro Incentive Program sell-in and sell-in activities on behalf of B&H Lights Box and Virginia Slims Ultra Lights.

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VII. SALES SERVICESOffice Administration

The current workload of each Administrative Assistant has to be re-evaluated to equalize various duties. Specifically, the merchandising contracts and the vending accounts have to be redistributed in order to balance workloads. Overall, the Section Office is functioning well now that all personnel has a better understanding of their perspective job functions.

Special Projects

During June, the following projects were either handled or addressed to the Section Office.

1. Office Files - Finalized purging, reorganizing and updating expense reports, merchandising contracts and vending files. Implementation of correspondence files by program started in June and will be finalized by August.

2. Parking Tickets - Since instituting parking ticket procedures in April, the overall number of parking tickets have been reduced to a minimum. During June, the Section Office only received 5 outstanding summonses. This is a tremendous change since our initial investigation of this matter back in March.

Auto Break-in - During June and throughout the first two weeks of July, the section only experienced 2 break-ins of company vehicles. We continue to show excellent improvements. However, the upcoming months August and September will be critical to maintaining this downward trend.

Section Issued Drafts - Only 13 drafts were issued from the Section Office in June. this is a decrease of 13 drafts from the previous months. Again, the major problem is lost, stolen or never received drafts.

Salesman Expense Late Voucher Report - Significant progress continues to be made with rectifying the large number of drafts listed on this report. In June, only 7 numbers were listed, reflecting our attempts to submit proper expense documentations. All expense numbers from 1986 have been eliminated from the report and only current numbers are listed. There should be no difficulty in obtaining proper documentation from section files on these 7 draft numbers.

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Patick Media/Philip Morris Golf Outing -
Successfully organized, planned and implemented all aspects for the Section 14 Golf Outing. Our Customers were extremely positive about the outing and expressed "thanks" for our involvement in the outing.

August Activities

- Primary activity for August will be to implement the SMART System in the Section Office.
- Revise and reorganize office files for various correspondence.
- Working with new Senior Account Manager on DPP customer track and related areas. Moreover, to review procedures for accessing the SMART System.
- Implement a system of monitoring various reports due back from Section Management Team. This will insure all recaps and requests are submitted in a timely manner.

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VIII. SALES DEVELOPMENT

The new call books have arrived. The general format is good and the new information provided will be helpful in both long and short term planning.

We need more visuals for the price-value segment of the market with emphasis on the profitability of the category. Presently, retailers consider the category more of a nuisance rather than a profit generator.

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IX. MEDIA

Discussed with Al Capone (Miller Beer) possible involvement with the Jones Beach and Pier 84 concert Tour. Presently, Lorillard has the sampling rights to both of these events. Al put me in touch with the promoter, Mr. Ron Delsenter, who informed me that Lorillard is paying \$50,000 for these events. He also informed me that we have not shown any interest but would leave it open for future consideration.

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X. MEETINGS/ASSOCIATIONS/CONVENTIONSMeetings

A.M. Meeting - Met to discuss general business with emphasis on depth of inventory at the wholesale level. Also discussed innititions for the upcoming Foster Kleiser Gulf Outing.

S.A.M. Seninar - Attended meeting with S.A.M. Fran Munoz. Overall, this meeting proved to be very worthwhile especially the portion. I believe, however, that more time and information is needed to evaluate the financial aspects of a specific account.

Region Meeting - Attended this meeting to discuss new Plan A information as well as building business matter at the Region and Section level.

Section Management Meeting - Discussed new Plan A and revised ICR reporting instruction. Also reviewed overall business results YTD.

Held a second Management Meeting to discuss implementation of the new V/S Ultra Lights and B&H Lights Box Introduction. Those in attendance were: Susan Rich, Assistant Brand Manager B&H, J. Spector, Brand Manager V/S and Mr. Taylor from Act Media.

M.P.A. Seminar - Implementation and review of our new Space Command System. The information system should be very beneficial (in communicating our sales objective) as well as the importance of the cigarette category.

National NAACP Convention - Attended the convention for 2 days to enhance my knowledge of this organization as well as the inner workings that go into a convention such as this.

N.Y.S. Vendor Association - Attended this 3 day convention at the Granit Hotel. While I found this personally beneficial in meeting some of our more important vendors, the overall turnout was poor and it will be necessary to revaulate our involvement next year.

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XI. MISCELLANEOUS COMMENTS

Nothing new to report.

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